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MEMORANDUM TO THE MINISTER OF HOUSING AND DIVERSITY AND INCLUSION

MULTI-UNIT RESIDENTIAL BUILDING (MURB) PROGRAM

FOR INFORMATION

SUMMARY

- This note provides an overview of the federal Multi-Unit Residential Building (MURB) Program that was introduced in 1974 and ended in 1982.
- The MURB program was a provision to the *Income Tax Act* which allowed rental housing investors to deduct certain costs against non-rental income to reduce income tax owing. It was implemented as a mechanism to increase rental construction by incentivizing private investment in the rental market.
- It is estimated that 195,000 units were created through this provision over the life of the program at a cost of \$2.4 billion in foregone tax revenue. Research by the City Centre of the University of Toronto (See Annex) questions that the true effect of the MURB program in increasing rental supply, reporting that there were also many abuses.
- We have included a summary of considerations by housing stakeholders (housing developers, researchers and academics) as to what they are seeking in a MURB program today.

Though tax policy is not within our purview, we will continue to engage housing stakeholders on this topic to understand their views.

BACKGROUND

- Canada is facing a persistent undersupply of rental housing which has led to affordability pressures. Many housing stakeholders suggested that to promote investment in new rental construction and restore affordability, the federal government should reconsider the tax policies previously in place in the 1970s, particularly the MURB.

- Legislated in 1974, the MURB program was an *Income Tax Act* provision. Developers could apply to this tax program and receive a certificate through CMHC designating the property as a MURB. There were no affordability requirements to receive a MURB certificate. This designation allowed investors in a MURB to offset a portion of their income from other sources, by claiming 5 or 10% depreciation losses on their property, even if that deduction generated a rental loss. It effectively allowed them to write off rental losses against other income, writing off certain costs such as mortgage fees, legal and accounting fees, interest expenses during construction, and property taxes.
- This was evidently important to developers and investors because following tax reforms introduced in 1972, Canada's tax structure did not allow these types of deductions. By essentially restoring some of the tax advantages lost through the 1972 tax reforms, MURB incited private investment into the rental market, and it is estimated that 195,000 units were created through this provision over the life of the program at a cost of \$2.4 billion in foregone tax revenue. Research by the City Centre of the University of Toronto in 2012 questions that the true effect of the MURB program in increasing rental supply, reporting that there were also many abuses (e.g. investors purchasing units only for the tax shelter benefit and housing developers tailoring buildings to qualify for a higher deduction rate, abuses of soft costs immediate deductibility).
- In 1979, the government announced the elimination of the MURB, which took effect in 1982. This decision was taken for combination of reasons, including: change in government; easing rental markets; program misuse and of lack of oversight that allowed some substandard construction; and zoning issues that limited the land available for MURBs.

CURRENT STATUS

- Since the elimination of the MURB program in 1982, tax policy in relation to rental housing development has remained largely unchanged and current tax regulations are less favourable to rental investment than have been historically.
- Previous industry proposals that included changes to tax regulations, such as the removal of GST on capital investments in new construction, were not ultimately supported by the federal government, despite being referenced in the 2015 ministerial mandate letter for Minister Duclos. Instead, the government introduced the Rental Construction Financing initiative (RCFi) which provides low-cost loans as a means of incentivizing private investment by offsetting costs related to rental housing construction.

CONSIDERATIONS

- Housing stakeholders provided several recommendations that are mostly seated in provincial and municipal reach including:
 - Reducing hard costs and soft costs for affordable rental development, by giving developers relief on development charges.
 - Streamlining environmental assessments, planning, and pre-development processes.
 - Improving access to land for MURB properties through various proposed mechanisms, as housing stakeholders have pointed out that high land costs are a significant barrier to rental development in large cities such as Toronto.
 - Reducing ongoing operating costs of affordable units by exempting MURB property taxes or by giving them breaks on hydro charges.

- To help address Canada's persistent undersupply of rental housing there needs to be an enhanced private sector role. We continue our data analysis, research, and policy development to support increased supply of housing, including affordable housing.

Approved by:
Romy Bowers
President and CEO

Date: June 23, 2023

- ☐ I would like an oral briefing
- ☐ I would like _____ of my staff to be briefed
- ☐ No briefing required

Attachment : 1

Tax Policy and Purpose-Built Rental Housing

Background

There have been several discussions by stakeholders¹ regarding the urgent need for changes to current tax regimes to improve rental supply and housing affordability. This note provides an overview of changes in Canadian tax policies that could have negatively impacted the attractiveness of investment in rental housing and discouraged new construction. It examines the role of capital cost allowances (CCAs) as well as the Multi-Unit Residential Building (MURB) provision. Additionally, it outlines preliminary policy considerations and implications for potential changes to the tax regime to encourage new rental supply, although research and analysis is needed to assess any changes and their effectiveness. It must be noted that tax policy is not within CMHC's purview, it is Department of Finance's. Our interest is in understanding the implications of tax policy on housing supply and views of our stakeholders.

Key Findings

- During periods with higher levels of rental construction, there were initiatives, such as favourable tax policy, that supported private investment in the rental market. These initiatives, in addition to public funding, helped to maintain a strong rental supply.
- To help address Canada's persistent undersupply of rental housing, there needs to be co-ordination between both public and private sector investment, as well as additional investments and an enhanced private sector role. CMHC will continue its data analysis,

¹ See the Globe and Mail [article](#): Mike Moffatt and Ken Boessenkool, "How Canada can create more rental housing", Special to the Globe and Mail, May 2, 2023

research, and policy development to determine the best possible approaches to achieve this beyond the measures already in place.

Summary

Capital Cost Allowances

A Capital Cost Allowance (CCA) is an elective tax deduction, used to offset maintenance costs of a depreciable asset on a yearly basis to account for amortization of the property. CCAs reduce the tax liability on rental income and must be claimed incrementally over several years. The rate of deduction for real estate assets (excluding land value) varies depending on the age, purchase date, and structural type of the building². Most rental properties have a deduction rate of 4%. It is applied to the capital cost of the depreciable property, applying the rate against the remaining balance over the life of the property. In addition, upon sale, owners must pay tax on the total CCA that was claimed during the years of ownership which is referred to as the recaptured CCA.

There have been several changes to the CCA deduction rate since its inception following tax reform in the 1970s. Prior to 1972, the CCA was 10% on wood frame buildings and 5% for all other building types³. In 1978, the CCA was lowered to 5% for all buildings and lowered further to 4% in 1987⁴ where it currently stands.

Aside from regulating changes to CCA, various tax measures that had incentivized rental housing investment were also amended following the 1970s tax reform. In the period leading up to 1972, there was no capital gains tax on the sale of a property, and CCAs losses could be deducted against other income. Moreover, the recaptured CCA could be deferred if the proceeds of the sale were used to purchase another rental building of equal or higher value⁵. These amendments were eliminated in 1972. Currently, owners must pay capital gains tax on 50% of the profits and it is taxed at the marginal rate according to the province of sale while 100% of the recaptured CCAs are taxable as regular income. Please see appendix Table 1 for an illustration of CCA rates, recapture rate and capital gains tax pre 1972 and post 1987.

Multi-Unit Residential Building Program

The Multi-Unit Residential (MURB) provision of the *Income Tax Act* allowed real estate investors to deduct excess CCAs against other income. Developers could apply to this tax program and would receive a certificate from CMHC designating the property as a MURB. To qualify for the MURB certificate, a building had to meet the following requirements: there were more than two units, it started construction between November 1974 to the end of 1979 or October 1980 to the

² CRA, [Capital Cost Allowance](#) classes

³ Clayton Research, [Economic Impact of Federal Tax Legislation on the Rental Housing Market in Canada](#), 1998

⁴ See above.

⁵ See above.

end of 1981, and at least 80% of the floor space was used for residential purposes.⁶ It should be noted that there were no affordability requirements to receive a MURB certificate. This certificate allowed investors in MURBs to offset some of their income from other sources by claiming 5 – 10% depreciation losses on the property (previous rules in place did not allow CCA deduction to generate a rental loss).

Essentially, the MURB provision created a develop-to-rent program. A developer would start a MURB with individual investors purchasing individual units. Development costs would be allocated on a per-unit basis and investors could use these to deduct against other (non-rental) income which could generate a rental loss and a tax refund for investors at the end of the year.⁷

Prior to 1972, any rental housing investor, including smaller investors and investors whose main business is real estate investment (Principal Business Corporations or PBCs) could deduct CCA losses against other income.⁸ This initiative was removed with tax reform in the 1970s which only allowed PBCs to use this provision.⁹ The government then reinstated this initiative in 1974 to encourage smaller investors to participate in the market with the introduction of the MURB provision which ran in some form until 1982 when it was eliminated.

The MURB provision has been generally thought of by stakeholders as a successful mechanism for incentivizing private investment in the rental market. It is estimated that 195,000 units were created through this provision at a cost of \$2.4 billion in foregone tax revenue.¹⁰¹¹ However, “the true effect of the MURB program in increasing rental supply has been questioned and there were reportedly many abuses”.¹² In 1978, the depreciation rate was changed to 5% for all building types due to evidence that developers were “tailoring buildings specifically to qualify for the 10% CCA deduction”.¹³ Changing of federal government, easing of market conditions, misuse of the program in addition to zoning issues that limited the land available for MURBs likely contributed to its eventual termination. There might have been other tax policy considerations for ending the program, which CMHC is not privy to.

Rental Market Implications

The main argument used by stakeholders to support changes to tax policy has been that previous tax regulations were more favourable to private investment which incentivized a higher amount

⁶ Clayton Research, *Tax Expenditures – Housing*, 1981.

⁷ <https://www.therecord.com/opinion/columnists/2017/11/15/a-tax-turnaround-that-punishes-the-risk-takers.html>

⁸ Clayton Research, *Economic Impact of Federal Tax Legislation on the Rental Housing Market in Canada*, 1998

⁹ See above.

¹⁰ Clayton Research, *Tax Expenditures – Housing*, 1981

¹¹ Library of Parliament, *The Shortage of Rental Housing in Canada* by Philippe Le Goff, 2002

¹² Jill Black, *The Financing & Economics of Affordable Housing Development: Incentives and Disincentives to Private-Sector Participation*, 2012

¹³ Clayton Research, *Tax Expenditures – Housing*, 1981

of new rental construction. According to CMHC survey data, prior to 1972, apartment starts¹⁴ accounted for more than 50% of total housing starts (see appendix Figure 1). After 1972, when changes to CCA were first introduced, until the start of the 1990s, apartment starts¹⁵ decreased to 30% of total housing starts (see appendix Figure 1). The slowdown in new rental construction continued until roughly 2015, where following a rapid rise in home prices shifted a growing number of prospective homebuyers towards rental, leading to an increase in the number of rental starts (see appendix Figure 2). However, purpose-built rental starts have not increased to match the pace seen prior to 1972. As of 2022, rental apartment starts in Canada accounted for 33% of total housing starts, underscoring a lingering disparity.

The evolution of rental starts may provide an insight into the impacts of financial incentives and the co-ordination of public and private investment. While there are many factors that have historically affected rental supply, notably the introduction of condominium legislation that provided an alternative housing option to rental apartments, there were strong periods of rental construction when public policies were in place to enable the flow of private investment into the rental sector in addition to public funding. This occurred with favourable tax policy in the late 1960s and early 1970s, and again with the easing of tax policy with the MURB provision.

More recently, the federal government introduced the Rental Construction Financing Initiative (RCFI), first announced in 2016 and launched in 2017, in lieu of a federal government commitment to remove GST on capital investments in affordable rental housing. RCFI provides low-cost financing through CMHC to encourage new supply of purpose-built rental housing and is mostly used by the private sector.

Policy Considerations

¹⁴ Prior to 1988Q3, the intended market of a housing start was not captured in survey data. Apartment starts would include both rental market and condominiums. However, it's estimated that a small proportion of apartment starts would have been intended for the condominium market prior to 1988.

¹⁵ See above.

Internal Note – CMHC
June 2023

Appendix

Table 1: Comparing the effects of Tax Policy Pre-1979 vs. Post-1987

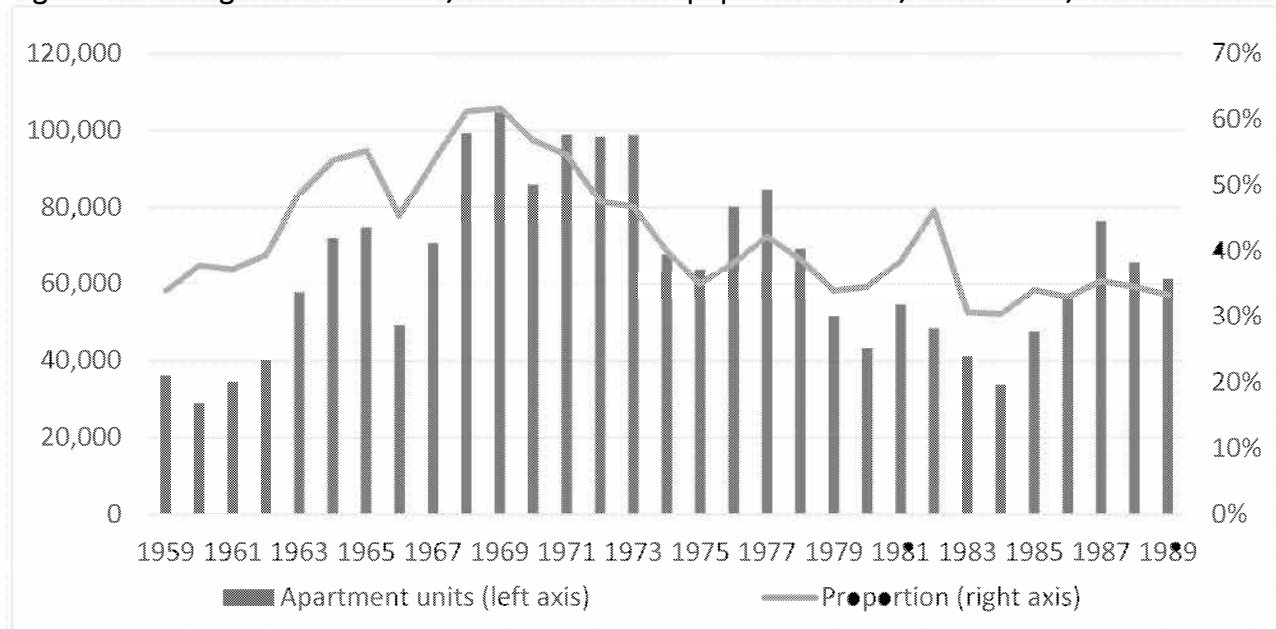
Notes and Assumptions

1. The property was acquired in Year 1 and only includes the value attributable to the building and improvements in the starting cost base.
2. Half Year Rule: The Income Tax Act allows you to claim only half of the CCA available for an asset in the year of its purchase.
3. Undepreciated Capital Cost (UCC): equals the total capital cost of the depreciable property less the CCA claimed previously.
4. The property is sold at Year 6 where the value attributable to the building and improvements is \$400,000.00 net of proceeds.

Year	Pre 1972			Post 1987		
	CCA Rate (%)	CCA (\$)	UCC (\$)	CCA Rate (%)	CCA (\$)	UCC (\$)
1			300,000.00			300,000.00
1	5%	15,000.00	285,000.00	2%	6,000.00	294,000.00
2	10%	28,500.00	256,500.00	4%	11,760.00	282,240.00
3	10%	25,650.00	230,850.00	4%	11,289.60	270,950.40
4	10%	23,085.00	207,765.00	4%	10,838.02	260,112.38
5	10%	20,776.50	186,988.50	4%	10,404.50	249,707.89

	Pre 1972	Post 1987
Sale Price:	\$ 400,000.00	\$ 400,000.00
Total CCA:	\$ 113,011.50	\$ 50,292.11
Capital Gains:	na	\$ 100,000.00
Recapture:	Total CCA will be added to Year 6 income and taxed at the marginal tax rate, or it can be carried over to a new purchase	Total CCA added will be added to Year 6 income and taxed at the marginal tax rate
Taxable Gains:	There are no capital gains tax	50% of the capital gains are taxable

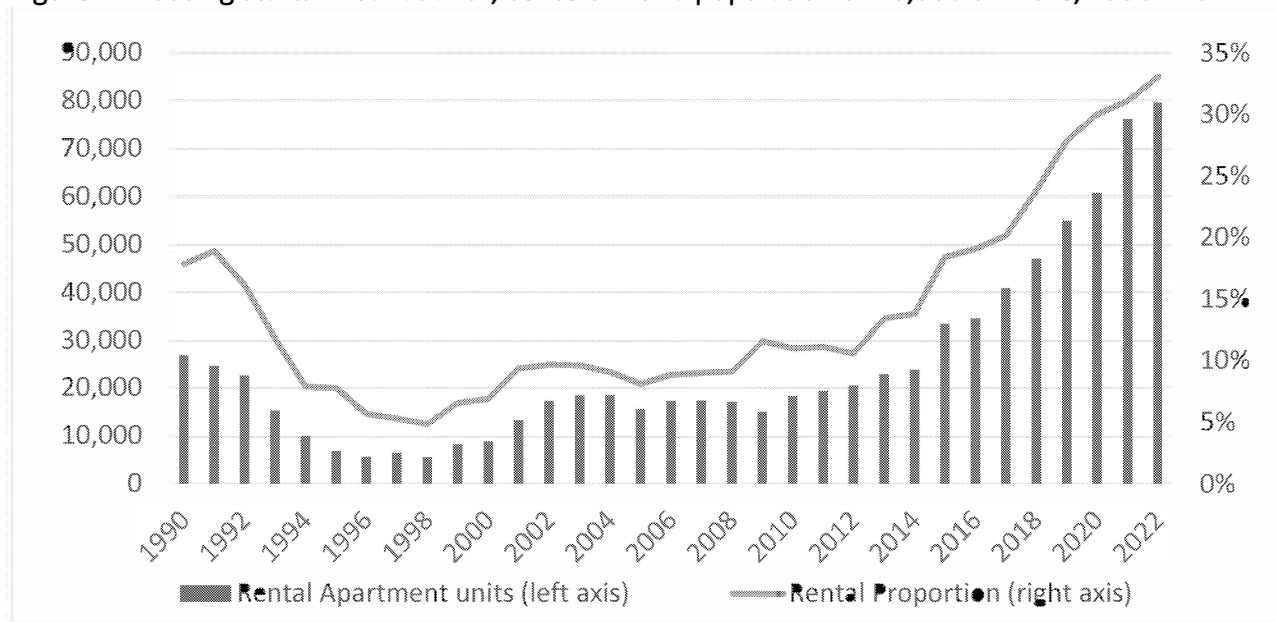
Figure 1: Housing starts in Canada, all centers with a population of 10,000 or more, 1959 - 1989



Source: Statistics Canada and CMHC

Note: Prior to 1988Q3, the intended market of a housing start was not captured in survey data. Apartment starts would include both rental market and condominiums. However, it's estimated that a small proportion of apartment starts would have been intended for the condominium market during the period 1959 to 1989.

Figure 2: Housing starts in Canada for, centers with a population of 10,000 or more, 1990 - 2022



Source: Statistics Canada and CMHC

Note: After 1998Q3, CMHC survey data started to capture the intended market of a housing start. The apartment units in this graph reflect those intended for the rental market.